

**CITY OF KIRWIN**

**Kirwin, Kansas**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**December 31, 2010**

**MAPES & MILLER  
Certified Public Accountants  
Phillipsburg, Kansas 67661**

**CITY OF KIRWIN  
Kirwin, Kansas**

**December 31, 2010**

**City Council**

**Linda Roth  
Steve Ellenberger  
Donnie Loyd  
Todd Lumpkin  
Judy Stockman**

**Brenda Loyd, Mayor**

**Susan Bedore  
Melissa Johnson**

**City Clerk  
City Treasurer**

**CITY OF KIRWIN  
Kirwin, Kansas**

**CONTENTS**

		<b><u>Pages</u></b>
	<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>1-2</b>
<b>Statement 1</b>	<b>SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH</b>	<b>3</b>
<b>Statement 2</b>	<b>SUMMARY OF EXPENDITURES – ACTUAL AND BUDGET</b>	<b>4</b>
<b>Statement 3</b>	<b>STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET</b>	<b>5-11</b>
	<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>12-19</b>



# **MAPES & MILLER**

**CERTIFIED PUBLIC ACCOUNTANTS**  
A PARTNERSHIP OF PROFESSIONAL CORPORATIONS

JOHN D. MAPES, CPA  
DENIS W. MILLER, CPA  
THOMAS B. CARPENTER, CPA  
DON E. TILTON, CPA

418 E HOLME  
NORTON, KS 67654  
(785)877-5833

P.O. BOX 266  
711 3<sup>RD</sup> STREET  
PHILLIPSBURG, KS 67661  
(785)543-6561

P.O. BOX 508  
503 MAIN STREET  
STOCKTON, KS 67669  
(785)425-6764

306 N POMEROY  
HILL CITY, KS 67642  
(785)421-2163

OTHER OFFICES:  
QUINTER  
WAKEENEY

## **INDEPENDENT AUDITOR'S REPORT**

**Mayor and City Council  
City of Kirwin  
Kirwin, Kansas 67644**

We have audited the accompanying financial statements of the City of Kirwin, Kansas, as of and for the year ended December 31, 2010, which collectively comprise the basic financial statements of the City's primary government, as listed in the table of contents. These financial statements are the responsibility of the City of Kirwin, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the guidance in the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described more fully in Note 1, the City of Kirwin, Kansas prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Mayor and City Council  
Kirwin, Kansas  
November 1, 2011  
Page Two

In our opinion, because of the omission of the component units, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2010, or the changes in financial position for the year then ended.

We were unable to determine correct beginning cash balances by fund. Also, material transactions during the year were not adequately documented. We were unable to apply other auditing procedures to satisfy ourselves regarding account balances. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying statements for the City as a whole and each respective fund presented as to cash receipts and expenditures, and budget to actual comparisons for the year then ended including beginning unencumbered cash.

In our opinion, the primary government of the City of Kirwin, Kansas' cash and unencumbered cash balances are presented fairly in all material respects, as of December 31, 2010 on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the governing body and management of the City of Kirwin, Kansas, and for filing with the Kansas Department of Administration, Division of Accounts and Reports and other federal and state agencies to whose jurisdiction the City is subject, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City Council, is a matter of public record.

Respectfully submitted,

*Mapes & Miller CPAs*  
Certified Public Accountants

November 1, 2011  
Phillipsburg, Kansas

CITY OF KIRWIN  
Kirwin, Kansas

Statement 1

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH  
For the Year Ended December 31, 2010

FUNDS	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:							
General Fund							
General Operating Fund	\$ 13,813	\$ -	\$ 49,281	\$ 53,839	\$ 9,255	\$ -	\$ 9,255
Special Revenue Funds							
Library Fund	114	-	1,617	1,599	132	-	132
Special Highway Fund	2,521	-	12,836	11,783	3,574	-	3,574
Grants & Donations Fund	21,377	-	82,237	60,173	43,441	-	43,441
Proprietary Type Funds:							
Enterprise Funds							
Solid Waste Utility Fund	3,867	-	14,539	14,316	4,090	-	4,090
Water Utility Fund	(25,820) *	-	219,388	210,629	(17,061) *	32,953	15,892
Sewer Utility Fund	(128,578) **	-	233,796	83,887	21,331	45,537	66,868
Total Primary Government	<u>\$ (112,706)</u>	<u>\$ -</u>	<u>\$ 613,694</u>	<u>\$ 436,226</u>	<u>\$ 64,762</u>	<u>\$ 78,490</u>	<u>\$ 143,252</u>

Composition of Cash:

Cash on Hand	\$ 150
Checking Account	27,727
Money Market Account	<u>115,375</u>
Total Primary Government	<u>\$ 143,252</u>

\* See Note 5A (Cash Basis Exception)  
\*\* See Note 5B (Cash Basis Exception)

The notes to the financial statements are an integral part of this statement.

**CITY OF KIRWIN**  
Kirwin, Kansas

Statement 2

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET**  
**(Budgeted Funds Only)**  
**For the Year Ended December 31, 2010**

FUNDS	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
<b>Governmental Type Funds:</b>					
General Fund					
General Operating Fund	\$ 42,499	\$ -	\$ 42,499	\$ 53,839	\$ 11,340
Special Revenue Funds					
Library Fund	1,600	-	1,600	1,599	(1)
Special Highway Fund	9,600	-	9,600	11,783	2,183
<b>Proprietary Type Funds:</b>					
Enterprise Funds					
Solid Waste Utility Fund	32,500	-	32,500	14,316	(18,184)
Water Utility Fund	36,366	-	36,366	210,629	174,263
Sewer Utility Fund	202,330	-	202,330	83,887	(118,443)

The notes to the financial statements are an integral part of this statement.

CITY OF KIRWIN  
Kirwin, Kansas

Statement 3

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For the Year Ended December 31, 2010

GENERAL OPERATING FUND

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Ad Valorem Tax	\$ 22,864	\$ 24,831	\$ (1,967)
Delinquent Tax	799	-	799
Motor Vehicle Tax	7,879	6,861	1,018
Recreational Vehicle Tax	130	90	40
16/20 M Vehicle Tax	342	256	86
Intangible Tax	522	522	-
Interest on Idle Funds	588	2,500	(1,912)
Franchise Fees	5,939	6,000	(61)
Return Check Charge	51	25	26
Dog Tags	190	500	(310)
Municipal Building Receipts	885	500	385
Rent Income	2,700	-	2,700
Grant Proceeds	2,841	-	2,841
Miscellaneous Receipts	3,551	-	3,551
	<u>49,281</u>	<u>\$ 42,085</u>	<u>\$ 7,196</u>
<b>EXPENDITURES</b>			
Salaries & Wages	15,165	\$ 6,500	\$ 8,665
Withholding Tax	6,564	1,000	5,564
Office Supplies	1,060	1,500	(440)
Employee Benefits	2,939	5,000	(2,061)
Shop Supplies	340	500	(160)
Publications	828	450	378
Insurance	8,302	5,000	3,302
Utilities	9,944	15,000	(5,056)
Fire Department	-	1,000	(1,000)
Postage	232	850	(618)
Dues & Fees	3,422	1,000	2,422
Fuel	945	1,000	(55)
Building Repairs	4	500	(496)
Repairs	894	500	394
Mileage/Travel	1,366	850	516
Contract Labor	24	-	24
Dog Expense	-	150	(150)
Equipment	127	-	127
Fish Cleaning Station	958	1,000	(42)
Library	-	400	(400)
Sales Tax	27	-	27
Miscellaneous Expenditures	698	299	399
	<u>53,839</u>	<u>\$ 42,499</u>	<u>\$ 11,340</u>
Cash Receipts Over (Under) Expenditures	(4,558)		
UNENCUMBERED CASH, January 1, 2010	<u>13,813</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ 9,255</u>		

The notes to the financial statements are an integral part of this statement.



CITY OF KIRWIN  
Kirwin, Kansas

Statement 3

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For the Year Ended December 31, 2010

LIBRARY FUND

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Ad Valorem Tax	\$ 1,081	\$ 1,174	\$ (93)
Delinquent Tax	44	-	44
Motor Vehicle Tax	461	406	55
Recreational Vehicle Tax	8	5	3
16/20 M Vehicle Tax	19	15	4
Copies/Fines	4	-	4
Total Cash Receipts	<u>1,617</u>	<u>\$ 1,600</u>	<u>\$ 17</u>
<b>EXPENDITURES</b>			
Appropriations	<u>1,599</u>	<u>\$ 1,600</u>	<u>\$ (1)</u>
Cash Receipts Over (Under) Expenditures	18		
UNENCUMBERED CASH, January 1, 2010	<u>114</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ 132</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF KIRWIN  
Kirwin, Kansas

Statement 3

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
For the Year Ended December 31, 2010

**SPECIAL HIGHWAY FUND**

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<b>CASH RECEIPTS</b>			
State of Kansas Gas Tax	\$ 5,532	\$ 6,030	\$ (498)
Tractor Labor	368	600	(232)
Gravel	69	-	69
Mowing	6,516	750	5,766
Miscellaneous Receipts	351	-	351
	<u>12,836</u>	<u>\$ 7,380</u>	<u>\$ 5,456</u>
<b>EXPENDITURES</b>			
Gravel	2,599	\$ 750	\$ 1,849
Fuel	2,202	2,500	(298)
Repairs	3,394	1,750	1,644
Herbicide	62	30	32
Equipment	426	1,000	(574)
Insurance	1,391	845	546
Signs	56	-	56
Utilities	29	2,725	(2,696)
Parks & Recreation	206	-	206
Contract Labor	590	-	590
Trees	790	-	790
Miscellaneous Expenditures	38	-	38
	<u>11,783</u>	<u>\$ 9,600</u>	<u>\$ 2,183</u>
Cash Receipts Over (Under) Expenditures	1,053		
UNENCUMBERED CASH, January 1, 2010	<u>2,521</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ 3,574</u>		

The notes to the financial statements are an integral part of this statement.

**CITY OF KIRWIN**  
**Kirwin, Kansas**

**Statement 3**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL**  
**For the Year Ended December 31, 2010**

**GRANTS & DONATIONS FUND**

	<u>Actual</u>
<b>CASH RECEIPTS</b>	
Hansen Foundation	\$ 10,000
Rent Income	1,200
Insurance Proceeds	10,469
Sale of School Building	55,405
Local Grants	<u>5,163</u>
<b>Total Cash Receipts</b>	<u><b>82,237</b></u>
<b>EXPENDITURES</b>	
Equipment	21,745
Grant Writing	3,600
Installation	4,494
Fees	2,462
Property Acquisition	14
Remittance to Rural Fire Department	11,169
City Improvements	14,648
Utilities	<u>2,041</u>
<b>Total Expenditures</b>	<u><b>60,173</b></u>
<b>Cash Receipts Over (Under) Expenditures</b>	<b>22,064</b>
<b>UNENCUMBERED CASH, January 1, 2010</b>	<u><b>21,377</b></u>
<b>UNENCUMBERED CASH, December 31, 2010</b>	<u><u><b>\$ 43,441</b></u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF KIRWIN  
Kirwin, Kansas

Statement 3

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
For the Year Ended December 31, 2010

SOLID WASTE UTILITY FUND

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<b>CASH RECEIPTS</b>			
Customer Charges	\$ 14,531	\$ 16,000	\$ (1,469)
Miscellaneous Receipts	<u>8</u>	<u>-</u>	<u>8</u>
Total Cash Receipts	<u>14,539</u>	<u>\$ 16,000</u>	<u>\$ (1,461)</u>
<b>EXPENDITURES</b>			
Solid Waste Removal	14,308	\$ 32,500	\$ (18,192)
Miscellaneous Expenditures	<u>8</u>	<u>-</u>	<u>8</u>
Total Expenditures	<u>14,316</u>	<u>\$ 32,500</u>	<u>\$ (18,184)</u>
Cash Receipts Over (Under) Expenditures	223		
UNENCUMBERED CASH, January 1, 2010	<u>3,867</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ 4,090</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF KIRWIN  
Kirwin, Kansas

Statement 3

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
For the Year Ended December 31, 2010

**WATER UTILITY FUND**

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Customer Charges	\$ 34,219	\$ 32,500	\$ 1,719
Water Plan	100	200	(100)
Enrev	247	500	(253)
Installation	150	50	100
Water Meter Deposits	158	800	(642)
Loan Proceeds	184,449	-	184,449
Miscellaneous Receipts	65	300	(235)
	<u>219,388</u>	<u>\$ 34,350</u>	<u>\$ 185,038</u>
<b>EXPENDITURES</b>			
Salaries & Wages	10,082	\$ 15,000	\$ (4,918)
Fuel	627	1,200	(573)
Utilities	3,843	5,000	(1,157)
Insurance	908	2,500	(1,592)
Fees & Workshops	200	500	(300)
Repairs	91,730	850	90,880
Parts & Supplies	93,832	950	92,882
Water Protection Fee	348	500	(152)
Sales Tax	27	275	(248)
Chlorine	372	650	(278)
Enrev	121	500	(379)
Postage	662	750	(88)
Water Testing	410	500	(90)
Publication	-	75	(75)
Employee Benefits	2,407	4,000	(1,593)
Mileage	238	250	(12)
Contract Labor	437	1,500	(1,063)
Water Meter Refund	22	-	22
Loan Fees	3,800	-	3,800
Interest and Service Fees	542	-	542
Water	-	1,366	(1,366)
Miscellaneous Expenditures	21	-	21
	<u>210,629</u>	<u>\$ 36,366</u>	<u>\$ 174,263</u>
Cash Receipts Over (Under) Expenditures	8,759		
UNENCUMBERED CASH, January 1, 2010	<u>(25,820) *</u>		
UNENCUMBERED CASH, December 31, 2010	<u>\$ (17,061) *</u>		

\* See Note 5A (Cash Basis Exception)

The notes to the financial statements are an integral part of this statement.

CITY OF KIRWIN  
Kirwin, Kansas

Statement 3

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
For the Year Ended December 31, 2010

**SEWER UTILITY FUND**

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Customer Charges	\$ 22,666	\$ 28,000	\$ (5,334)
Grant Proceeds	122,882	-	122,882
Loan Proceeds	87,961	168,590	(80,629)
Miscellaneous Receipts	287	-	287
	<u>233,796</u>	<u>\$ 196,590</u>	<u>\$ 37,206</u>
<b>EXPENDITURES</b>			
Salaries & Wages	4,548	\$ 15,000	\$ (10,452)
Employee Benefits	2,450	2,800	(350)
Engineering & Design	10,000	1,200	8,800
Utilities	651	2,000	(1,349)
Insurance	-	3,500	(3,500)
Fees & Dues	185	750	(565)
Sewer Repairs	49,968	1,000	48,968
Chemical	-	2,500	(2,500)
Postage	-	650	(650)
Travel & Mileage	421	500	(79)
Capital Outlay	-	7,333	(7,333)
Contractors	-	150,000	(150,000)
Principal	4,362	6,461	(2,099)
Interest and Service Fees	2,104	4,636	(2,532)
Grant Administration	2,780	2,500	280
Audit Fees	6,400	-	6,400
Miscellaneous Expenditures	18	1,500	(1,482)
	<u>83,887</u>	<u>\$ 202,330</u>	<u>\$ (118,443)</u>
Cash Receipts Over (Under) Expenditures	149,909		
UNENCUMBERED CASH, January 1, 2010	<u>(128,578)</u>	*	
UNENCUMBERED CASH, December 31, 2010	<u>\$ 21,331</u>		

\* See Note 5B (Cash Basis Exception)

The notes to the financial statements are an integral part of this statement.

**CITY OF KIRWIN**  
**Kirwin, Kansas**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The City of Kirwin, Kansas, the primary government operates as a third class city in accordance with the laws of the State of Kansas. The City operates under a mayor-council form of government and provides the following services: public safety (police and fire protection), highways and streets, water, sewer, sanitation, health and social services, culture and recreation services, planning and zoning, public improvements, and general administrative services.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing board.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that the Library is a component unit of the City. Financial information for the component unit has not been reported in the City's financial statements. Accordingly, these financial statements present the activities of the primary government only and are not a complete presentation in accordance with generally accepted accounting principles.

The governing bodies of the following are appointed by the City:

- 1) Library. The City of Kirwin Library Board operates the City's Public Library. Acquisition or disposition of real property by the board must be approved by the City. The City levies taxes for the Library. Bond issuances must be approved by the City.

The component unit's unaudited financial statements can be obtained from the City Clerk.

**FUND ACCOUNTING**

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Funds are classified into three categories: governmental, proprietary, and fiduciary. Within each of these three categories there are one or more fund types. The City uses the following fund types:

### Governmental Type Funds

**General Fund** - The general fund is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes only.

### Proprietary Type Funds

**Enterprise Funds** - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

### BASIS OF ACCOUNTING

**Statutory Basis of Accounting** - The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

**Departure from Accounting Principles Generally Accepted in the United States of America** - The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles in the United States of America. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.



## **LEAVE POLICIES**

### **Vacation Pay**

City employees, who have worked at least one year but less than ten years receive ten days of vacation per year. An employee who has worked at least ten years receives fifteen days paid vacation per year. Vacation time is added on the anniversary date and may accumulate to a maximum of twenty days. Vacation days are paid to the employees upon termination of employment.

### **Sick Pay**

Each full time employee is credited with one sick day per month with a maximum accumulation of thirty days. Part time employees who work at least 100 hours per month earn four hours of sick leave per month with a maximum accumulation of sixteen days. Sick leave is not paid upon termination of employment.

### **Compensatory Pay**

City employees who work over forty hours in any week may receive compensatory time off in lieu of pay for overtime hours worked. Compensatory time is calculated at one and one-half times the hours of overtime.

The total cost of the accumulated vacation and compensatory leave accrued as of December 31, 2010 is shown on Note 9, and will be recorded as an expenditure at the time the leave is utilized as normal personal services expenditures.

## **REIMBURSEMENTS**

Reimbursements are defined as repayments of amounts remitted on behalf of another party. All reimbursements shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursement was directly tied to the amount of the original cash disbursement.

## **2. BUDGETARY INFORMATION**

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
2. Publication in local newspaper on or before August 5<sup>th</sup> of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year ended December 31, 2010.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received, and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital projects funds, fiduciary funds, permanent funds, and the following:

Special Revenue Fund:  
Grants & Donations Fund

Spending in funds which are not subject to the legal annual operating budget requirements is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

### **3. PROPERTY TAXES**

Property taxes are levied November 1<sup>st</sup> of the calendar year. A lien is placed on the property when the taxes are levied. The taxes are due ½ on December 20<sup>th</sup> and ½ the following May 10<sup>th</sup>. Any taxes unpaid at the due dates are considered delinquent. Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year: such procedure being in conformity with governing state statutes. Consequently, current year property taxes receivable are not available as a resource that can be used to finance the current year operation of the City and therefore are not susceptible to accrual.

It is not practical to apportion delinquent taxes held by the County Treasurer at the end of the audit period and, further, the amounts thereof are not material to the financial statements taken as a whole.

### **4. COMPLIANCE WITH KANSAS STATUTES**

- A. K.S.A. 10-816 requires checks that are outstanding for more than two years be cancelled and restored to the fund originally charged. The City had four checks greater than two years old outstanding at December 31, 2010, violating K.S.A. 10-816.

- B. K.S.A. 10-1117 requires the clerk to maintain a record of each funds' indebtedness and contracts creating a liability against the City. The records did not include the City's fund indebtedness and contracts for the year ended December 31, 2010, violating K.S.A. 10-1117.
- C. K.S.A. 10-1118 requires the Treasurer to maintain records that show the amount of money in each fund. The Treasurer did not maintain records that showed the amount of money in each fund during the year ended December 31, 2010, violating K.S.A. 10-1118.
- D. K.S.A. 12-822 requires interest to be paid or credited on utility deposits at the rate set by the Kansas Corporation Commission. The City did not pay interest or give credit on the utility deposits during the year ended December 31, 2010, violating K.S.A. 12-822.
- E. K.S.A. 12-1608 requires annually published financial statements showing, by fund: beginning and ending balances, receipts, and expenditures along with obligation/liability information. The City did not publish financial statements for the year ended December 31, 2010, violating K.S.A. 12-1608.
- F. K.S.A. 79-2935 requires expenditures be controlled, so that no indebtedness is created in excess of budgeted limits. The City exceeded budgeted limits in the General Operating Fund, Special Highway Fund, and the Water Utility Fund for the year ended December 31, 2010, violating K.S.A. 79-2935.
- G. The City is not aware of any other non-compliance with Kansas statutes for the year ended December 31, 2010.

## **5. CASH BASIS EXCEPTION**

- A. Authority is authorized under K.S.A. 74-8905 and the Loan Act to issue revenue bonds for the purpose of providing funds to implement the State's requirements under the Federal Act and to loan the same, together with available funds from the EPA capitalization grants, to cities within the State for the payment of Project Costs. The City had a negative unencumbered cash balance in the Water Utility Fund at January 1, 2010 and December 31, 2010, because the City must expend monies before they can receive the loan proceeds. K.S.A. 10-1116 provides an exception from a cash-basis law violation for the issuance of bonds. The City expended monies with the expectation of monies being reimbursed under conditions of the KDHE loan agreement.
- B. Authority is authorized under K.S.A. 74-8905 and the Loan Act to issue revenue bonds for the purpose of providing funds to implement the State's requirements under the Federal Act and to loan the same, together with available funds from the EPA capitalization grants, to cities within the State for the payment of Project Costs. The City had a negative unencumbered cash balance in the Sewer Utility Fund at January 1, 2009, because the City must expend monies before they can receive the loan proceeds. K.S.A. 10-1116 provides an exception from a cash-basis law violation for the issuance of bonds. The City expended monies with the expectation of monies being reimbursed under conditions of the KDHE loan agreement.

## **6. DEPOSITS AND INVESTMENTS**

### **Deposits**

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining County, if such an institution has been designated as an official depository and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

### **Concentration of Credit Risk**

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during the designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2010.

At December 31, 2010, the City's carrying amount of deposits was \$ 143,102 and the bank balance was \$ 150,150. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance \$ 150,150 was covered by federal depository insurance.

### **Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

## **7. OTHER POST EMPLOYMENT BENEFITS**

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage.

The American Recovery and Reinvestment Act of 2010 (ARRA), as amended, provides for premium reductions for health benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985, commonly called COBRA. The premium assistance is also available for continuation coverage under certain State laws. "Assistance Eligible Individuals" pay only 35% of their COBRA premiums; the remaining 65% is reimbursed to the coverage provider through a tax credit. The premium reduction applies to periods of health coverage that began on or after February 17, 2010 and lasts for up to fifteen months.

## **8. RISK MANAGEMENT**

The City of Kirwin is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disaster. The City continues to carry commercial insurance coverage to cover these risks. The City has had no significant reduction in insurance coverage from prior years. Settled claims resulting from these risks have not exceeded commercial insurance coverage for each of the past three years.

## 9. LONG-TERM DEBT

Changes in long-term debt for the City for the year ended December 31, 2010, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Beginning Balance 1/1/2010	Additions	Reductions/ Payments	Net Change	Ending Balance 12/31/2010	Interest/ Service Fees Paid
<b>KDHE Loan</b>										
Water Pollution Control	2.83%	10/11/2004	\$ 168,590 *	2030	\$ 62,059	\$ 87,961	\$ 4,362	\$ -	\$ 145,658	\$ 2,104
Public Water Supply	3.77%	9/11/2009	243,200 **	2031	-	184,449	-	-	184,449	542
Total KDHE Loans			411,790		62,059	272,410	4,362	-	330,107	2,646
<b>Compensated Absences</b>										
Accumulated Vacation			-		-	-	-	1,405	1,405	-
Total Long-Term Debt			\$ 411,790		\$ 62,059	\$ 272,410	\$ 4,362	\$ 1,405	\$ 331,512	\$ 2,646

N/A = Not Applicable

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

Year	KDHE Loan	
	Principal	Interest
2011	\$ 10,588	\$ 9,220
2012	15,135	13,386
2013	15,647	12,873
2014	16,178	12,343
2015	16,726	11,795
2016-2020	92,546	50,059
2021-2025	109,404	33,201
2026-2030	53,883	5,394
	<u>\$ 330,107</u>	<u>\$ 148,271</u>

\* As of December 31, 2010, the City had received loan proceeds of \$150,020.

\*\* As of December 31, 2010, the City had received loan proceeds of \$184,449.